Annual Report/1969

PENN CENTRAL

A SUPPLEMENT is available containing additional statistics and financial data. If you wish a copy, please address your request to the Secretary, Penn Central Company, Six Penn Center Plaza, Philadelphia, Pa., 19104.

THE ANNUAL MEETING of Stockholders will be held in the Philadelphia Civic Center, Civic Center Boulevard at 34th Street, Philadelphia, Pa., at 2 p.m., Tuesday, May 12, 1970.

STOCK TRANSFER OFFICES—
1808 Transportation Center, Six Penn Center Plaza, Philadelphia, Pa., 19104; Room 1010, 466 Lexington Avenue, New York, N.Y., 10017; The First National Bank of Boston, 45 Milk Street, Boston, Mass., 02106; Continental Illinois National Bank & Trust Company of Chicago, 231 South LaSalle Street, Chicago, Ill., 60690.

Contents

Letter to the Stockholders

The year 1969 was a very difficult one for Penn Central. Our problems were principally centered in the transportation company, and some of them were beyond our control. Among the most troublesome ones were:

1. the impact of inflation
2. delay in securing freight rate increases
3. a slowdown in the economy
4. passenger deficit and service problems
5. merger start-up costs
6. abnormal weather conditions
7. strikes and threats of strikes

These, among other factors, adversely affected transportation company results by many millions of dollars in 1969, or the equivalent of several dollars per share. I am not saying, of course, that even under the most favorable circumstances we could have completely overcome the effect of these problems in 1969, but I cite them to give you a clearer picture of the items which depressed our earnings. In order that you may better appreciate their impact, a brief discussion of each follows.

Inflation—Clearly the inflationary trend has been checked in certain areas but not in others. Unfortunately, this in many instances has not benefited Penn Central but has hurt us.

There has been no curb on wage increases. In fact, our wage level increased 7 per cent in 1969, or by $74 million, the equivalent of $3.00 per share, and we are faced with even greater wage increases this year. Total employment costs consumed about 59¢ of each railroad revenue dollar.

In addition, our 1969 material costs for the railroad rose by 5 per cent, or $9 million. Penn Central's increase in fixed charges in 1969 of $34.8 million was mainly because of the transportation company's greater interest charges, reflecting in part higher interest rates. We estimate the impact of inflation on the railroad at $100 million for 1969.

Delay in Securing Offsetting Freight Rate Increases—Although many of the above costs were in effect for all or a major portion of 1969, it was not until November 18 that we obtained a 6 per cent

increase in freight rates. This lag was due principally to the inability of the railroad industry to agree on the level of increase to request from the Interstate Commerce Commission.

As a result, additional revenues fell far short of absorbing our increases in operating costs.

Slowdown in the Economy—It was during the latter part of 1969 that this had a significant effect on Penn Central's results. This was offset partially by regaining some of the business Penn Central lost in the latter part of 1968 and early 1969.

We are still feeling the impact of the leveling out of the economy, particularly in automobile traffic and general merchandise business.

Passenger Deficit and Service Problem—Our disproportionate share of passenger service—more than 35 per cent of the nation's total and 64 per cent of service in the East—not only produced a heavy deficit but diverted an inordinate amount of financial and managerial resources from our other operations. Even though we made economies of $29.2 million in passenger operations during the year, we still reported in 1969 a passenger deficit of $104.8 million on a fully allocated basis.

Our new Metroliner trains, which began operating in January, 1969, are enthusiastically received, but this bright spot is overshadowed by the deficits and operating problems of the 1,280 passenger trains we operate daily throughout our system.

Service deteriorated because we do not have adequate resources to maintain it. Nevertheless, we have taken steps to provide clean trains with reliable on-time performance to sustain service with our overage equipment.

We are working with governmental authorities to develop public assistance programs for modernizing commuter service in the New York, Philadelphia and Boston metropolitan areas. These projects are summarized on page 11 in this report.

Merger Start-Up Costs—The task of unifying the former Pennsylvania, New York Central and New Haven railroads into a single system is both complex and expensive. During the past two years, we also have spent $600 million on capital projects and acquisition of equipment. The money has gone for new and expanded classification yards, combining terminals and improvement in our equipment and facilities. There is still much to be done, but the most expensive projects have been completed.

In addition, service problems inherent in the start-up phases of merger caused us to lose a good deal of freight traffic which we have not yet fully regained.

Abnormal Weather Conditions—The winter of 1969 and early 1970 was the most severe in nearly a century throughout a large portion of our operating territory. Service on some parts of the system was virtually paralyzed for weeks, and operating expenses were increased substantially by snow removal costs and other emergency programs.

Strikes and Threats of Strikes—Traffic volume was lost because of strikes in several key industries and a recurring threat of a strike in the railroad industry. Several work stoppages in coal production, a prolonged strike in Canadian ore mines and strikes at General Motors in the spring and General Electric in the fall had a heavy cumulative effect on traffic.

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We have initiated a number of programs designed to make the railroad a more efficient, unified system. Among the most important of these are:

1. reorganization of management
2. restructuring of passenger service
3. redesign of our system trackage
4. reduction and control of expenses
5. emphasis on diversification

Reorganization of Management—Our new president, Paul A. Gorman, joined Penn Central on December 1. In addition, top management of the railroad has been realigned by the appointment of three new executive vice presidents and two senior vice presidents. These officers have proven ability and experience, although none exceeds 50 years of age.

This realignment provides delegation of greater responsibility for improving performance of lower echelons of management and supervision. Our executive team will expedite new methods and techniques of modern industrial management, particularly in cost control, budgeting and computer technology.

Penn Central management is intensifying cost reduction programs, making more precise analyses of the cost and quality of service and developing better measurements of the profitability of various types of traffic. We are using task forces of operating, accounting, engineering and computer experts to evaluate utilization of equipment, distribution of empty cars, traffic flow through yards and other operating procedures.

The objective of these programs is to give our patrons greatly improved service.

Restructuring of Passenger Service—Our passenger service policy is to improve essential service through augmented public assistance and to phase out poorly patronized and unneeded trains.

We petitioned the Interstate Commerce Commission in March for discontinuance of 34 long-distance passenger trains in East-West service. Their discontinuance, together with 14 other East-West trains currently before the ICC or the courts, will enable us to save $22.9 million annually in direct losses.

We are seeking to terminate all long-distance passenger service west of Buffalo, N.Y., and Harrisburg, Pa. These actions, however, will not affect commuter or North-South service in the Eastern Seaboard area, Empire State service in New York, Philadelphia-Harrisburg schedules or the commuter lines serving Chicago and Detroit.

We are pressing for action in Congress on legislation providing Federal assistance to cover deficits of trains that appropriate governmental officials require us to operate in the public interest but do not pay their own way, and to finance modern equipment which will satisfy passenger demands.

Redesign of System Trackage—We have launched a project to streamline our railroad by eliminating 5,800 miles of surplus track from our total of 40,000 miles. This could bring benefits of $90 million of equivalent capital and save $9 million annually in operating expenses.

Efficiency of our remaining plant will be enhanced through disposition of these unneeded freight facilities, seldom-used branch lines, excess yard trackage and duplicate lines.

Reduction and Control of Expenses—We are cutting expenses to the bone. Through normal attrition and early retirement, we have reduced total employment by 8,000 people since the merger and plan further major reductions in 1970. We are getting better control of per diem charges, one of the categories of heaviest expense since merger. The passenger restructuring, trackage reduction and profitability analysis programs already described are directly connected with this austerity campaign.

Diversification Program—We are continuing to build a diversified corporation with many kinds of investments. Under the holding company which came into being in October, we have recently acquired two oil companies. Through Great Southwest Corporation we have entered the manufacture and sale of mobile homes, modular housing development, multiple-family home building and property development in Hawaii.

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The impressive performance of our real estate subsidiaries is described in this report. Income of $137 million—derived from real estate operations, investments and tax payments from subsidiaries—was used to support our railroad operations during the past year.

These assets have proved invaluable to us and we are confident of their continued success. Their health and strength will enable us to use them in our financing program for 1970.

We have not taken a penny from our railroad to pursue diversification. On the contrary, the railroad benefits greatly from the earnings of these enterprises.

Penn Central is in the railroad business to stay and we are eager to overcome the problems of making our system profitable.

We are counting on the continued dedication of all employes in carrying out the programs I have outlined. Our officers and directors deeply appreciate their loyalty and hard work during the past year.

Sincerely,

Stuart T. Saunders

Stuart T. Saunders,
Chairman of the Board

March 16, 1970

Directors

*Stuart T. Saunders
Chairman of the Board, Penn Central Company, Philadelphia, Pa.

*Paul A. Gorman
President, Penn Central Company, Philadelphia, Pa.

*David C. Bevan
Chairman of the Finance Committee, Penn Central Company, Philadelphia, Pa.

*Alfred E. Perlman
Vice Chairman of the Board, Penn Central Transportation Company, New York, N.Y.

*Louis W. Cabot
Chairman of the Board, Cabot Corporation, Boston, Mass.

William L. Day
Chairman of the Board, The First Pennsylvania Banking and Trust Company, Philadelphia, Pa.

*John T. Dorrance, Jr.
Chairman of the Board, Campbell Soup Company, Camden, N.J.

*Otto N. Frenzel
Chairman of the Board, Merchants National Bank and Trust Co., Indianapolis, Ind.

*E. Clayton Gengras
Chairman of the Board and President, The Security Insurance Corporation, Hartford, Conn.

R. Walter Graham, Jr., M.D.
Management of Personal Investments, Baltimore, Md.

*Edward J. Hanley
Chairman of the Board, Allegheny Ludlum Steel Corp., Pittsburgh, Pa.

Gaylord P. Harnwell
President, University of Pennsylvania, Philadelphia, Pa.

*Fred M. Kirby
Chairman of the Board, Alleghany Corporation, New York, N.Y.

Seymour H. Knox
Chairman of the Board, Marine Midland Trust Company of Western New York, Buffalo, N.Y.

*Franklin J. Lunding
Chairman of the Finance Committee, Jewel Companies, Melrose Park, Ill.

*Walter A. Marting
President, The Hanna Mining Company, Cleveland, Ohio

Robert S. Odell
President, Allied Properties, San Francisco, Calif.

*Thomas L. Perkins
Counsel to Perkins, Daniels & McCormack, New York, N.Y.

*R. Stewart Rauch, Jr.
President, The Philadelphia Saving Fund Society, Philadelphia, Pa.

R. G. Rincliffe
Retired Chairman of the Board, Philadelphia Electric Company, Philadelphia, Pa.

Carlos J. Routh
Vice Chairman of the Board, Pittston Company, New York, N.Y.

*John M. Seabrook
Chairman of the Board and President, International Utilities Corporation, Philadelphia, Pa.

Daniel E. Taylor
Management of Personal Affairs, West Palm Beach, Fla.

*Designates those listed for both Penn Central Company and Penn Central Transportation Company. Listing without this mark is for Penn Central Transportation Company only.

Officers

*Stuart T. Saunders
Chairman of the Board

*Paul A. Gorman
President

*David C. Bevan
Chairman of the Finance Committee

Alfred E. Perlman
Vice Chairman of the Board

Robert G. Flannery
Executive Vice President

Edward G. Kreyling, Jr.
Executive Vice President

Henry W. Large
Executive Vice President

James A. McDonald
Executive Vice President

A. Paul Funkhouser
Senior Vice President-Passenger Service

Robert W. Minor
Senior Vice President-Legal and Public Affairs

John E. Chubb
Vice President-Baltimore

Edward L. Claypole
Vice President-Transportation

Basil Cole
Vice President-Executive Department

Robert Haslett
Vice President-Investments

Samuel H. Hellenbrand
Vice President-Industrial Development, Real Estate and Taxes

*Charles S. Hill
Vice President-Controller

Ferdinand L. Kattau
Vice President-Management Planning & Development

William F. Kirk
Vice President-Mail and TrailVan Services

Howard C. Kohout
Vice President-Passenger Service

*William A. Lashley
Vice President-Public Relations & Advertising

John J. Maher
Vice President-Labor Relations & Personnel

*Jonathan O'Herron
Vice President-Finance

John G. Patten
Vice President-Freight Sales

Malcolm P. Richards
Vice President-Purchases and Materials

James R. Sullivan
Vice President-Marketing

William H. Tucker
Vice President-New England

George C. Vaughan
Vice President-Engineering & Equipment

James J. Wright
Vice President-Research

*Edward A. Kaier
General Counsel

*Bayard H. Roberts
Secretary

*John H. Shaffer
Treasurer

Regional Officers

John H. Burdakin
Vice President & General Manager, Detroit, Mich.

George M. Smith
Vice President & General Manager, Pittsburgh, Pa.

Kenneth E. Smith
Vice President & General Manager, Chicago, Ill.

Ernest P. Frasher
Vice President, New York, N.Y.

Raymond C. Harrison
General Manager, Indianapolis, Ind.

Frank S. King
General Manager, Syracuse, N.Y.

Robert F. Lawson
General Manager, Philadelphia, Pa.

John M. McGuigan
General Manager, New Haven, Conn.

Officers of Major Subsidiaries

Brown L. Whatley
President, Arvida Corporation, Miami, Fla.

George S. Patterson
President, Buckeye Pipe Line Company, New York, N.Y.

Charles L. Towle
President and Chairman of the Board, Detroit, Toledo and Ironton Railroad Company, Dearborn, Mich.

Angus G. Wynne, Jr.
Chairman of the Board, Great Southwest Corporation, Arlington, Texas

John F. Nash
President, Lehigh Valley Railroad Company, Bethlehem, Pa.

Henry G. Allyn, Jr.
President, The Pittsburgh and Lake Erie Railroad Co., Pittsburgh, Pa.

Alphonse W. Salomone
President, Realty Hotels Incorporated, New York, N.Y.

Financial Review

The consolidated figures in this report are those of Penn Central Company and its subsidiaries. This is the holding company approved by stockholders on May 13, 1969, and made effective on October 1, 1969. This company owns all of the outstanding stock of Penn Central Transportation Company, the railroad operating company.

Penn Central Transportation Company continues to be the holder of such subsidiary companies as The Pittsburgh & Lake Erie Railroad Company, Realty Hotels, Inc., and Pennsylvania Company, a wholly owned investment holding subsidiary.

Pennsylvania Company retains our interest in such subsidiaries as Arvida Corporation, Buckeye Pipe Line Company, the Detroit, Toledo & Ironton Railroad Company and Great Southwest Corporation, into which Macco Realty Company was merged in March, 1969.

Penn Central Company had consolidated earnings from ordinary operations for 1969 of $4,388,000, compared to 1968 results of $87,789,000, restated to reflect retroactive payment by Penn Central Transportation Company of court-ordered division of freight revenues to Southern lines including interest thereon.

In addition to these operating results, we provided an extraordinary charge against 1969 earnings of $126 million to write off the Company's investment in facilities, equipment and terminals used for long-haul passenger service west of Harrisburg and Albany. The Board of Directors considered this step wise because there is no longer any possibility that this investment can be recovered.

The reduction in earnings for the year is attributable primarily to the deficit of the railroad (see page 7). These losses of the railroad were partially offset by $137 million in income from real estate operations, investments and tax payments from subsidiaries.

Penn Central Transportation Company showed a net loss of $56,328,000 from ordinary operations, compared with a restated loss of $5,155,000 in 1968.

Dividends paid in 1969 totaled $1.80 a share, or 60 cents for each of the first three quarters. In view of earnings and the necessity for conserving cash, no additional payment was made for the fourth quarter.

At the close of 1969, 24,111,881 shares of Penn Central stock were outstanding.

Financial Operations

Consolidated net earnings of Pennsylvania Company were $87.6 million in 1969, compared with $87.1 million in 1968. Penn Central Transportation Company received $24 million in dividends from Pennsylvania Company.

Earnings from Pennsylvania Company's diversified holdings continued to contribute significantly to Penn Central's results. The major non-railroad subsidiaries—Great Southwest Corporation, Buckeye Pipe Line Company and Arvida Corporation—provided $53.4 million to net income, 21 per cent more than the $44.2 million for 1968.

In 1969, Pennsylvania Company sold 215,827 shares of Norfolk & Western Railway Company common stock at a profit of $13,643,000. Another 80,000 shares were disposed of under an arrangement for the exchange of 800,000 shares of N&W common stock for 4⅝ per cent N&W convertible subordinated debentures with par value of $104 million. To date, 400,000 shares have been exchanged and, of the $52 million in debentures received, $41.6 million have been sold under the divestiture program ordered by the Interstate Commerce Commission.

In 1970, to acquire two oil firms—Southwestern Oil & Refining Company of Corpus Christi, Texas, and Royal Petroleum Corporation of New York City—as holding company subsidiaries, Penn Central Company issued 400,000 shares of $3 cumulative preference stock and exchanged it for the stock of the two companies. Each share is convertible into two shares of Penn Central common stock or, after five years, one share of Norfolk & Western Railway Company common stock.

In addition to these acquisitions by Penn Central Company, renewed emphasis was given to diversification through growth of Great Southwest Corporation (see page 13) in order to broaden the Company's base of earnings. Pennsylvania Company acquired an additional 1.4 million shares of newly issued common stock in exchange for $25.2 million of debt owed it by GSC and now owns 90 per cent of the GSC voting stock.

Transportation Operations

The 1969 loss for Penn Central Transportation Company of $56.3 million in ordinary income is attributable to many adverse factors. Increases in railroad operating expenses, taxes and equipment rentals produced a $41.3 million loss in net railway operating income. Fixed charges rose $27.8 million over 1968.

Among the other factors were the passenger service deficit, rising inflation concurrent with falling industrial production, strikes in basic industries such as coal, ore, automobiles and electrical products, record-breaking cold weather and the failure to obtain freight rate increases soon enough or large enough to absorb increased labor costs.

Inflation in wage rates and fringe benefits, price of materials, taxes and higher interest charges on increased borrowing had an adverse impact of $100 million in 1969. Railroad employment costs in 1969 were $1 billion, or about 59¢ of each dollar of operating revenue.

Employment totaled 95,300 at year end, a reduction of 8,000 since merger. In addition to normal attrition, 1,662 employes, many of managerial rank, have taken early retirement.

Penn Central Transportation Company employment averaged 97,679 during 1969, a decrease of 4,374 or 4.3 per cent from 102,053 in 1968 (restated to include the New Haven). Labor costs, including payroll taxes and fringe benefits, averaged $11,081 per employe in 1969, an increase of $757 or 7.3 per cent over 1968.

During the year, we were plagued by service defects inherent in the start-up phases of the merger. The physical and operational problems of unifying the rail system were compounded by inclusion of the New Haven on December 31, 1968. In two years since the merger, Penn Central has spent approximately $600 million for merger-connected projects

Consolidated Financial Highlights

		1969	1968
From the Earnings Statement	Total revenues—all sources	**$2,252,726,000**	$2,108,634,000
	Depreciation, amortization and depletion	**$ 133,328,000**	$ 136,182,000
	Interest and debt expense	**$ 137,018,000**	$ 102,206,000
	Federal income taxes	**$ 1,622,000**	$ 2,168,000
	Earnings from ordinary operations	**$ 4,388,000**	$ 87,789,000
	Extraordinary loss on investment in long-haul passenger service facilities	**$ 126,000,000**	—
From the Balance Sheet	Total assets	**$6,850,676,000**	$6,524,376,000
	Long-term debt—due within one year	**$ 228,130,000**	$ 164,735,000
	—due after one year	**$2,411,563,000**	$2,121,762,000
	Shareholders' equity	**$2,809,968,000**	$2,974,352,000
	Number of shares outstanding	**24,111,881**	24,085,329
Per Share of Penn Central Stock	Earnings from ordinary operations	**$ .18**	$3.80
	Cash dividends	**$1.80**	$2.40
	All taxes	**$7.46**	$6.46

and capital improvements. Most of the costliest facilities have been built, and outlays for them are non-recurring.

We are well ahead of our original timetable of eight years for completing the unification, but we still have a long way to go.

A favorable trend of reduction in heavy per diem costs (charges for use of cars owned by other railroads) has been established. After rising throughout 1968 and the first half of 1969, charges were reduced by $3 million in the third quarter and $6.9 million in the fourth quarter under corresponding periods of 1968.

In addition to better operating control, our per diem costs will be an estimated $16 million less in 1970 as the result of a Supreme Court decision in November, 1969, upholding a new ICC time-mileage formula for computing per diem rates.

In our operating department, we eliminated one region, reducing the number to eight. Further reorganization is planned in 1970 to cut costs and increase efficiency.

We abandoned 422 miles of line during the year. This, however, is only the start of streamlining our rail network into a more productive system. On the basis of a study made during the year, we plan to eliminate some 5,800 miles of excess trackage, or 14 per cent out of a 40,000-mile total. This program will mean $90 million in equivalent capital and $9 million annual operating savings.

During the year, we acquired equipment and facilities totaling $268 million. We obtained 150 new freight locomotives and 4,302 new freight cars. Another 60 locomotives and 2,955 freight cars were completely rebuilt, and we rehabilitated and returned to service nearly 14,000 cars.

The largest new facility added in 1969 was our $26 million electronic classification yard at Columbus, Ohio, which began operation in December. We now have eight computer-controlled classification yards.

Yards in the Cincinnati, Indianapolis, New York, Trenton and Buffalo areas were expanded to accommodate heavier traffic, and a new diesel repair shop was completed at Selkirk near Albany, N.Y.

Since merger, 33 key terminals have been combined, and virtually all important rail connections have been made.

Service was improved by preblocking cars and by simplifying other procedures for moving freight shipments through our major gateways.

New Haven Inclusion

Although the former New Haven Railroad was included in the Penn Central system and operated as our New Haven Region throughout 1969, terms of the transaction are still in litigation. The Interstate Commerce Commission and the three-judge Federal court at New York City set the purchase price at $150 million. The reorganization court at New Haven, Conn., decided that the price should be $28 million higher, and the New Haven bondholders are asking for even more. Appeals by Penn Central from the reorganization court's decision and by the bondholders from the decisions of both courts are pending before the Supreme Court of the United States.

Revitalizing the New Haven depends largely on two factors—the extent to which we can restructure service and the support and cooperation we receive from governmental agencies.

Our new Perlman Yard, near Albany, N.Y. has become the pivotal point for single-line service connecting New England with the Midwestern, the Western and the Southern gateways. We instituted a number of fast freight trains to take advantage of this traffic pattern. A new trunk line connection at Jersey City now provides through service between New England and Florida without floating cars across New York harbor.

At the end of the year, the former Boston and Albany line was put under jurisdiction of the New Haven Region, with headquarters in New Haven. The Vice President-New England, with offices in Boston, is coordinating our programs with public officials.

Passenger service was restructured early in 1969, for a 40 per cent reduction in New York-Boston trains. Schedules were revised to give better service in peak travel periods and better utilization of the limited equipment.

TRAFFIC

Sales and Marketing

Sales, pricing, marketing and research activities were directed at developing both the volume and profitability of freight traffic. The demand for specialized service and assigned equipment continued to grow, presenting new opportunities for market development.

We inaugurated in October unit-grain trains of 100 jumbo covered-hopper cars from the Midwest to Eastern ports on a 7-day round-trip schedule. These trains transported 4.2 million bushels of corn in 12 trips in the fourth quarter, and we anticipate a substantial expansion of the service in 1970.

New "mini-train" grain service is being promoted to provide fast and frequent short-haul service to shippers at rates competitive with trucking. These ten-car trains serve country elevator operators who ship to processing facilities and terminal elevators.

In the household appliance market, our introduction of new 60-foot high-cube box cars, pricing incentives and better rail service turned marginal business into a promising profit maker. This service reduces damage, provides unit savings for shippers and allows lower inventories by distributors. We have assigned 270 new cars to this service, and expect to extend this technique to other manufacturers during 1970.

We constructed new unloading terminals for automobile shipments at Westboro, Mass., and Weehawken, N.J.

Penn Central TrailVan service (piggyback and containerized shipping) produced more than $122 million in revenues in 1969, an increase of 11 per cent over 1968. We transported approximately 500,000 units, more than 20 per cent of the national total.

Acquisition of 300 new mechanical refrigerated trailers and 500 vans in 1969 brought our total fleet of TrailVan trailers and containers to more than 10,000 units. Seven TrailVan terminals were enlarged and formerly separate terminals were consolidated at nine points.

Penn Central now has 35 TrailVan trains daily, competitive in rates and service with through-truck shipments.

To develop international container traffic, we have equipment interchange agreements with 39 steamship companies and have acquired 150 trailers suitable for use on European highways.

Flexi-Flo intermodal freight shipments for bulk commodities rose by 30 per cent in 1969. A new Flexi-Flo terminal at Detroit was opened in October, our twelfth terminal for automatic transfer of bulk commodities in specialized rail cars.

Coal and Ore Traffic

Coal traffic revenues increased to $206 million, about 5.5 per cent more than 1968, despite mine strikes which caused a loss of three million tons. Unit-train shipments, which have kept coal competitive in Eastern fuel markets, rose to an average of 750 trains per month.

Total coal transported amounted to 97.2 million tons—an increase of 1.3 per cent, compared with the 0.4 per cent increase in United States coal production.

The Waynesburg Southern Railroad, built in 1968, handled 1.4 million tons in unit-train traffic from two new mines. A third mine will be opened in 1970, raising shipments to about 3.25 million tons.

Unit-train operations began over our new Captina Branch extension in Ohio. In 1970, shipments should reach 800,000 tons from the first new mine on the extension.

At other points on Penn Central, 16 mines with combined capacity of nearly 40 million tons per year are being developed.

Penn Central's share of Great Lakes coal traffic rose to 24.7 per cent from 17.2 per cent in 1968, largely because of our modernized coal pier at Ashtabula, O. This facility handled 3.6 million tons in its first full year of operation—more than double the 1968 tonnage. This should reach approximately 5 million tons in 1970.

Iron ore traffic in 1969 increased to 27.1 million net tons with revenues of approximately $55 million, compared with 23.3 million tons and $44.5 million in 1968.

Our Cleveland ore dock handled a near-record 7.5 million tons in 1969, the biggest volume in 16

years. This boosted total ore shipments over our four Lake piers to 14.8 million tons in 1969, compared to 13.1 million tons in 1968. Penn Central's share of total ore from the Lakes increased from 43.6 per cent in 1968 to 45.8 per cent in 1969.

Freight Rates

The Interstate Commerce Commission granted a six per cent general increase in freight rates effective November 18, 1969. Although this boosted Penn Central freight revenues by some $7.5 million in the fourth quarter, it came too late in the year to counter the inflationary rise in 1969 operating expenses. The rate increase will amount to about $80 million on an annual basis. Eastern and Western lines filed for an additional 6 per cent across-the-board increase early in March, 1970. It is unlikely that this will completely absorb pending wage increases and other rising costs.

Mail Service

Mail revenues in 1969 dropped to $54 million from $62.3 million in 1968. Continuing diversion of mail to highway and air caused this decline.

Penn Central is working closely with the Post Office Department to develop mail shipments by TrailVan. We operate ten trains exclusively for carrying mail in containers, and hope to extend this profitable service.

Passenger Service

Penn Central operates 35 per cent of the nation's railroad passenger service and nearly two-thirds of the service in the East. Our deficit of $104.8 million on a fully allocated cost basis was a major factor in our loss from railroad operations in 1969. Passenger revenues, including mail and express on passenger trains, continued their downward trend in 1969, falling to $231 million from $250 million in 1968 (including the New Haven).

Throughout the year, we aggressively pursued our policy of improving essential service with public support, while petitioning to discontinue unneeded and unused trains for which there is no economic justification. Public assistance on state and regional levels continued to grow, but a much greater Federal commitment is essential for both commuter and intercity service.

During 1969 we were permitted to discontinue 27 intercity trains, but were denied final action on 14 other trains.

Our testimony before both houses of Congress in the fall of 1969 pointed out that Penn Central can no longer provide adequate service without substantial public assistance, especially on the Federal level. Legislation has been introduced to provide this Federal assistance, but no bill has yet reached the floor of either the Senate or the House.

In order to reduce a deficit that seriously drains our resources, we petitioned the Interstate Commerce Commission in March, 1970, for discontinuance of 34 long-distance trains in East-West service.

We could save $22.9 million annually in direct costs by discontinuing these trains and 14 other East-West trains for which cases are pending before the ICC or awaiting court decision. This action would eliminate long-distance intercity service west of Buffalo, N. Y., and Harrisburg, Pa., but it is only a small portion of our total passenger service. We are now operating approximately 1,280 daily passenger trains.

In 1969, we substituted food service at seats in parlor club cars and snack bar service in coaches for many money-losing dining cars. This has proved acceptable to passengers and has resulted in considerable annual savings.

During the year, we took over from Pullman Company the operation of remaining interline sleeping car service.

Metroliner Service

Penn Central's Metroliner service, which was started on January 16, 1969, increased to six round trips per day between New York and Washington during the year. We are receiving limited assistance from the U. S. Department of Transportation in this project to develop a modern passenger service over this route.

Despite chronic mechanical difficulties, Metroliners carried nearly 700,000 passengers during their first year of operation, reversing a 16-year downward trend in rail travel in the New York-Washington corridor, for an increase of approximately 8 per cent.

The Metroliners have proved their ability to attract travelers back to the rails, but the overall economics of this project cannot be tested and measured accurately until mechanical defects are corrected and the full 50-car complement is in dependable service.

A unique computerized ticketing and reservation system for Metroliner service was installed in August, 1969. Ticket-counter consoles are printing tickets and tabulating reservations in approximately 20 seconds. We plan to expand this computerized operation to include all trains serving the Northeast Corridor.

A new MetroPark station is being built by the State of New Jersey at the intersection of our line and the Garden State Parkway for use by Metroliners and suburban trains. A similar station is being built in Maryland near Washington, where the Capital Beltway crosses our line.

Turboservice

Experimental TurboTrain rail passenger demonstration service between Boston and New York began on April 8, 1969, under sponsorship of the U. S. Department of Transportation. A daily round trip of the turbine-powered train continued throughout the year, carrying more than 60,000 passengers, and cutting nearly an hour off normal schedules. We will continue testing the feasibility of this service.

Commuter Service

Penn Central commuter trains transport some 277,000 riders daily in the New York, Philadelphia and Boston metropolitan areas. We are experiencing severe difficulties with the New York and Philadelphia service, and we are deeply concerned about the seriousness of this problem.

Much of our commuter equipment is 50 to 60 years old and is simply wearing out. Some of it is beyond repair, and some is approaching that state. Most of it is virtually impossible to maintain in reliable operating condition.

This problem cannot be corrected by our railroad alone. The solution lies in a partnership between government and private enterprise, in recognition that commuter operations are a public service dependent on public support.

We are participating in long-range public assistance programs to modernize this service with new equipment and upgraded facilities, and we are seeking emergency aid for keeping this essential service going in the interim.

We have reorganized the management of both commuter and intercity passenger service. This new leadership is making renewed efforts to provide cleaner trains with better on-time performance.

A major step forward for Metropolitan New York service was taken in November, 1969, when a memorandum of agreement was signed with the States of New York and Connecticut. The State of New York will purchase our New Haven line from Woodlawn Junction to the Connecticut border, and the State of Connecticut will lease the line from that point to New Haven. Penn Central will operate the service under contract, and continue to use the line for through passenger and freight service. The states, with help from the Federal government, will commit themselves to a $104 million program of capital expenditures for 144 new cars and rehabilitation of tracks, shops and stations.

An agreement along similar lines is being negotiated for acquisition of our Harlem and Hudson commuter facilities by the New York Metropolitan Transportation Authority.

We are working with the State of New York and the Metropolitan Transportation Authority to improve service on our Harlem, Hudson and New Haven lines with $8.35 million in emergency funds allocated by the State Legislature.

The first 35 "Jersey Arrow" cars purchased by the State of New Jersey were delivered to Penn Central in 1969, under an agreement to provide 80 new commuter cars. New Jersey is committed to purchase 45 more of these cars to replace obsolete equipment now in service.

We have rehabilitated 27 stainless steel coaches acquired by the State of New Jersey for use in North Jersey Coast commuter service. A new passenger station for Trenton, to be built with State funds, is being designed and construction bids will be received in April, 1970.

The Southeastern Pennsylvania Transportation Authority is negotiating for matching Federal funds

with which to acquire 130 new commuter cars for our Philadelphia commuter service. Also participating in this purchase are the Commonwealth of Pennsylvania, the City of Philadelphia and the Reading, which will get 14 new cars. Penn Central will pay $4.4 million of the total cost. It will, however, be at least two years before these cars will be available to replace the obsolete car fleet with which we must maintain service in the meantime.

Pennsylvania-Reading Seashore Lines passenger service into Philadelphia was discontinued October 1, 1969. These trains now connect at Lindenwold, N.J., with a new automated high-speed line operated by the Port Authority Transit Corporation into center-city Philadelphia. Concurrently, a three-year contract went into effect with the State of New Jersey, providing increased public service payments and state rehabilitation of the P-RSL self-propelled diesel passenger fleet.

Computer Systems

Consolidation of Penn Central's system-wide data processing and communications network was completed in 1969, and new programs were set up to improve management controls and information reporting.

A car tracing system that draws upon 175 communications terminals was installed in July to handle some 40,000 daily inquiries about location and status of 600,000 freight cars. Another program was developed to assist in cutting per diem expenses by computerized planning and control of freight car distribution.

Quality control reports were developed to help the marketing and transportation departments analyze freight service. These reports enable management to identify service problems and take corrective action.

Freight billing and accounting systems were consolidated in 1969, permitting analysis of revenue data by our marketing, sales and coal and ore departments.

Plans for 1970 include implementation of the demurrage and industrial car control system and introduction of new control systems for inventory and purchasing and for locomotive maintenance and heavy repair work. Initial steps will be taken to program an advanced "real time" transportation control system. All are basic elements in a long-range plan to utilize the latest information systems technology.

Subsidiary Railroads

The Pittsburgh & Lake Erie Railroad, 93 per cent owned by Penn Central, had net earnings of $10,353,000 in 1969, a decrease of $539,000 from 1968, attributable primarily to the increase in Pennsylvania's corporate net income and capital stock taxes which became effective January 1, 1969.

P&LE freight car ownership totals more than 23,650 cars, of which nearly 98 per cent are in serviceable condition.

Installation of a new traffic control system for most main line tracks was completed.

Net earnings of the Detroit, Toledo & Ironton Railroad Company, a wholly owned Penn Central subsidiary serving Michigan and Ohio, rose to $4,200,000 in 1969, an increase of 44.5 per cent over 1968. Gross revenues reached an all-time high of $31 million.

Pipeline Operations

Penn Central's wholly owned pipeline subsidiary, Buckeye Pipe Line Company, transported a daily average of approximately 42 million gallons of crude oil, gasoline, jet fuel, diesel oil, kerosene and fuel oil, an increase of 3 per cent over the previous year. Higher volumes are forecast for 1970.

Buckeye reported net income of $12,221,000 in 1969, down 11.5 per cent from earnings of $13,812,000 in 1968. This decrease resulted from loss of domestic shipments of crude oil to Buffalo refineries that have substituted Canadian crude, and temporary diversion of some long-haul trunkline business because of new construction by connecting lines. The latter, however, will be restored in 1970.

During 1969, Buckeye spent $9.8 million on capital improvements. The major investment was construction of 56 miles of 16-inch pipeline between the Wilkes-Barre/Scranton, Pa., area and Binghamton, N.Y., as the second phase of expanding Buckeye's refined products system into upper New York State.

Real Estate

Receipts from real estate operations and sales, both railroad-related and subsidiary companies, totaled $278.4 million for the year, an increase of 3.7 per cent over 1968's $268.3 million.

System-wide rental income, including our New York hotels, Park Avenue properties, and Pennsylvania Station and Grand Central Terminal concessions, rose to an all-time high.

Realty Hotels, Inc., the wholly owned subsidiary which operates four midtown-Manhattan hotels—the Barclay, Biltmore, Roosevelt and Commodore—increased occupancy of its 5,000 rooms by 10 per cent in 1969. The combined capacity of the hotels is being promoted as one of the world's largest convention centers with 90 meeting and convention rooms and 19 restaurants and lounges. This approach is bringing significant growth in conventions, tours and international gatherings. The hotels are being modernized and refurbished to add to their competitive advantages.

Our remodeled Pennsylvania Station and the new Madison Square Garden sports and entertainment center above it are giving impetus to construction of new office and commercial buildings in this West Side area of Manhattan. Penn Central owns approximately 25 per cent of the stock of Madison Square Garden Corporation.

In Washington, work is expected to start in 1970 on converting Union Station into a National Visitors Center, under terms of an agreement made in 1968 leasing the property to the U. S. Department of the Interior, while reserving the necessary terminal facilities for our rail operations. The complex will include a multi-story parking garage over some of the tracks.

In Pittsburgh, civic groups have strongly endorsed Penn Central Park as the location for the city's new $12 million exhibition hall and a final decision is expected soon.

In Chicago, completion of the new Union Station is scheduled for early 1971, beneath the 35-story Gateway Center Building being built on air rights owned 50 per cent by Penn Central.

Industrial Development

During the year, 557 industrial plants were built or expanded on Penn Central lines. Rapid progress is being made in establishing industrial parks, and Penn Central now serves more than 300 privately owned parks covering nearly 30,000 acres.

Although high interest rates and tight money unquestionably will restrict industrial growth in 1970, some 300 industries are already planning to extend present facilities or build new ones this year on Penn Central lines.

Great Southwest Corporation

Great Southwest Corporation, in which Penn Central owns 90 per cent of the voting stock, now includes the California-based Macco Corporation, which became a wholly owned Great Southwest subsidiary in March, 1969. Since launching its initial enterprise of a 2,400-acre industrial park between Dallas and Fort Worth in 1956, Great Southwest has become one of the nation's largest land developers, with interests in Texas, Georgia, California and Hawaii.

Net earnings for Great Southwest Corporation last year set another new high of $34,364,000 after taxes, an increase of 25.3 per cent over 1968 earnings of $27,425,000.

Great Southwest entered the mobile home sales and manufacturing field in November with the 100 per cent acquisition of Richardson Homes Corporation of Indiana, the nation's second largest independent manufacturer of mobile homes, for cash and other considerations amounting to $15 million.

A modular housing division, Housing Systems, Inc., was created within Macco to accommodate Richardson and to utilize mass production techniques for the low-cost housing market.

Richardson has plants in Texas, Indiana, California and Florida, and Housing Systems, Inc. plans to build five additional plants and to develop 20 mobile home communities in 1970. With this combination of production facilities and sales organization, Great Southwest's total housing production in 1970 is projected at more than 18,000 units.

Great Southwest also has acquired 100 per cent ownership of the I. C. Deal Companies, Inc., of Dallas, one of the largest privately owned multi-family home builders in the nation, for 933,000 shares of GSC stock and 466,000 additional shares contingent on the level of long-term earnings.

In Hawaii, GSC has entered a 20-year partnership with C. Brewer & Company, Hawaii's largest corporate land holder, for development of 285,000 acres of resort, residential, recreational and agricultural properties.

Another GSC acquisition was the purchase for $2 million of a 50.2 per cent interest in the Dallas-based Scientific Control Corporation, a manufacturer of computer hardware.

Six Flags, Inc., GSC's recreation park subsidiary, currently operates Six Flags Over Texas and Six Flags Over Georgia and will complete construction in May, 1971 of Six Flags Over Mid-America at St. Louis.

Arvida Corporation

Net earnings in 1969 for Arvida Corporation, 58 per cent owned by Penn Central, amounted to $1,314,000 after Federal income taxes, compared with 1968 income of $2,435,000, reflecting a general slowdown in sales of lots, condominium units and unimproved land.

The new 26-story Boca Tower addition to the Boca Raton Hotel and Club, and the Golf Villas with 120 hotel rooms, were opened during 1969. The expansion program has doubled capacity to 700 guest rooms, and added a large auditorium and convention center accommodating meetings of 1,500 persons.

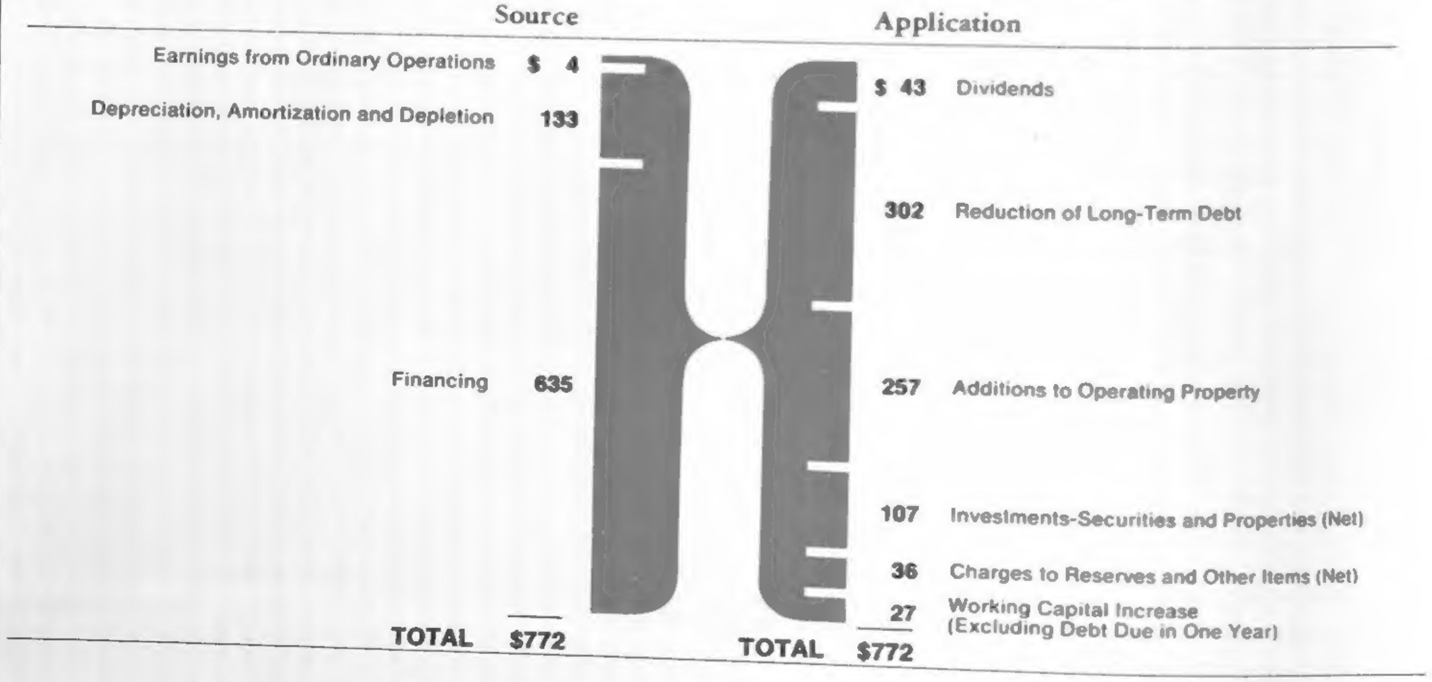
Construction began early in 1970 on a four-story condominium apartment house in the first of 12 residential hamlets planned for Boca Raton West, the golf and residential community on 1,450 acres west of the hotel grounds.

Four 18-hole championship golf courses have been laid out. The first was completed in October, 1969, the second in February, 1970, and the third is being landscaped and seeded.

Arvida began three high-rise condominium apartment buildings in 1969—Longboat Key Towers, on the west coast of Florida near Sarasota, and Sable Shores Apartments and Lake House South at Boca Raton. All will be ready for occupancy in 1970, with 339 units at prices totaling $22 million.

Plans are formulated for long-range development of properties in Dade, Broward, Palm Beach and Sarasota counties for residential, commercial and industrial use.

Penn Central Consolidated Source & Application of Funds / Year 1969 (in millions)



Paul A. Gorman, former President of Western Electric Company, was named President and Chief Administrative Officer of Penn Central Company and Penn Central Transportation Company on December 1, 1969, succeeding Alfred E. Perlman, who became Vice Chairman of the transportation company.

David C. Bevan, Chairman of the Finance Committee; Louis W. Cabot, Chairman of the Board, Cabot Corporation; E. Clayton Gengras, Connecticut insurance executive; Paul A. Gorman; and Walter A. Marting, President, Hanna Mining Company, became Directors in 1969 of Penn Central Company and Penn Central Transportation Company.

Isaac B. Grainger, James S. Hunt, Richard K. Mellon, William G. Rabe and James M. Symes retired from the Board of Directors of Penn Central Company during the year. General Mellon, who had served continuously since 1934, was the fourth member of his distinguished family to serve on the Board. Mr. Symes ended his formal association with the company after a career covering 53 years. He was President of the Pennsylvania Railroad Company from 1954 to 1959, and Chairman from 1959 to 1963.

A major realignment of top railroad management took place in March, 1970, with the appointment of Edward G. Kreyling, Jr., as Executive Vice President (Traffic Department); R. G. Flannery, Executive Vice President (Operating Department); J. A. McDonald, Executive Vice President (Staff); R. W. Minor, Senior Vice President-Legal and Public Affairs; and A. P. Funkhouser, Senior Vice President-Passenger Service. Mr. Kreyling succeeds Henry W. Large, who reaches mandatory retirement age in July, 1970.

S. H. Hellenbrand became Vice President-Industrial Development, Real Estate and Taxes.

Guy W. Knight, Senior Vice President, and Vice Presidents Leo B. Fee and John B. Prizer retired in 1969. Vice President W. R. Gerstnecker resigned to accept a position in another company. Executive Vice President David E. Smucker and Vice Presidents W. B. Salter and Theodore K. Warner, Jr., retired in early 1970.

Vice Presidents appointed since the last annual report are Charles S. Hill, Vice President-Controller; J. J. Maher, Vice President-Labor Relations and Personnel; Jonathan O'Herron, Vice President-Finance, who was formerly Executive Vice President of Buckeye Pipe Line Co.; Howard C. Kohout, Vice President- Passenger Service; Kenneth E. Smith, Vice President and General Manager, Chicago; and Edward P. Frasher, Vice President-Metropolitan Region. Edward A. Kaier was named General Counsel.

Penn Central continued to play an active role in the National Alliance of Businessmen's JOBS (Job Opportunities in the Business Sector) program. We participate as an employer in 34 cities and provide the program's leadership in Greater Philadelphia. We have increased our utilization of minority employes in all occupational classes, despite an overall decrease in our work force.

During the year, development of managers and supervisors was emphasized through an internal management course, company-wide supervisory training courses, and participation in executive development seminars at leading universities.

Our management team was augmented through the recruitment of 148 young men and women from colleges and universities.

Training programs for new trainmen, yard and station clerks, car repairmen, company motor vehicle operators and operating employes were undertaken.

Regional training centers were established in Philadelphia and Chicago. Programs to meet replacement needs for maintenance-of-equipment and other skilled craftsmen are being designed.

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Penn Central Company and Consolidated Subsidiaries

Statement of Consolidated Earnings and Retained Earnings

Current Earnings	*Year ended December 31*	1969	1968
Revenues	Transportation:		
	Railroad	$1,872,453,000	$1,705,077,000
	Pipeline	37,344,000	35,514,000
		1,909,797,000	1,740,591,000
	Real estate and related operations:		
	Property sales	186,438,000	175,842,000
	Rents and other	91,970,000	92,448,000
		278,408,000	268,290,000
	Investments:		
	Dividends and interest	39,084,000	46,189,000
	Net gain on sales	25,437,000	53,564,000
		64,521,000	99,753,000
	Total Revenues	2,252,726,000	2,108,634,000
Costs and Expenses	Transportation:		
	Railroad (note 13)	1,895,555,000	1,712,968,000
	Pipeline	21,958,000	18,871,000
		1,917,513,000	1,731,839,000
	Real estate and related operations:		
	Cost of properties sold	103,997,000	104,788,000
	Operation of rental properties and other	69,759,000	67,948,000
		173,756,000	172,736,000
	Other:		
	Interest and debt expense	137,018,000	102,206,000
	Federal income taxes (note 4)	1,622,000	2,168,000
	Minority interest in earnings of subsidiaries	18,429,000	11,896,000
		157,069,000	116,270,000
	Total Costs and Expenses	2,248,338,000	2,020,845,000
Earnings	From ordinary operations (notes 4 and 13)	4,388,000	87,789,000
	Extraordinary item (loss on investment in long-haul passenger service facilities) (notes 4 and 12)	(126,000,000)	—
Net Earnings (Loss)	For the year (notes 4, 12 and 13)	(121,612,000)	87,789,000
Retained Earnings	From prior years:		
	As previously reported	1,674,433,000	1,639,560,000
	Adjustment (note 13)	(9,191,000)	(6,707,000)
	As adjusted	1,665,242,000	1,632,853,000
		1,543,630,000	1,720,642,000
	Cash dividends	43,396,000	55,400,000
	Balance at end of year	$1,500,234,000	$1,665,242,000
Per Share Data	Earnings from ordinary operations	$ .18	$3.80
	Extraordinary item	(5.22)	—
	Net earnings (loss)	$(5.04)	$3.80
	Cash dividends	$ 1.80	$2.40

See accompanying notes to financial statements.

Consolidated Balance Sheet

Assets	*December 31*	1969	1968
Current Assets	Cash and temporary cash investments	$ 154,385,000	$ 105,672,000
	Loans and notes receivable	19,513,000	15,232,000
	Accounts receivable and unbilled revenue	322,584,000	261,665,000
	Materials and supplies, at cost	103,841,000	90,924,000
	Other	30,554,000	17,141,000
	Total Current Assets	630,877,000	490,634,000
Noncurrent Assets	Investments and advances, at cost or less (notes 2 and 7)	535,711,000	462,594,000
	New Haven—net assets acquired, at cost (note 1)	—	127,544,000
	Real estate companies—properties held for development or resale, at cost (note 7)	215,076,000	181,062,000
	Properties (notes 3, 7 and 12)	7,010,224,000	6,936,656,000
	Less accumulated amortization, depreciation and losses upon merger (notes 3 and 6)	1,747,337,000	1,837,593,000
	Total Properties—Net	5,262,887,000	5,099,063,000
	Deferred charges and sundry assets	93,613,000	68,507,000
	Investment in consolidated subsidiaries in excess of net assets acquired	112,512,000	94,972,000
	Total Assets	$6,850,676,000	$6,524,376,000
Liabilities and Shareholders' Equity			
*Current Liabilities**	Notes payable	$ 147,559,000	$ 77,326,000
	Accounts payable	39,611,000	34,975,000
	Accrued expenses	407,874,000	355,548,000
	Federal income taxes (note 4)	273,000	592,000
	Other	13,938,000	28,031,000
	Total Current Liabilities (excluding debt due within one year)*	609,255,000	496,472,000
Long-Term Debt	Due within one year	228,130,000	164,735,000
	Due after one year	2,411,563,000	2,121,762,000
	Total Long-Term Debt (note 7)	2,639,693,000	2,286,497,000
Other	Estimated liabilities incurred upon merger (note 6)	101,935,000	119,346,000
	Casualty and other claims	101,232,000	84,837,000
	Deferred credits and other liabilities	166,613,000	149,398,000
	Minority interest in subsidiaries	266,313,000	256,025,000
	Excess of net assets acquired of consolidated subsidiaries over investment	155,667,000	157,449,000
	Total Other	791,760,000	767,055,000
Shareholders' Equity	Preference stock—without par value. Authorized 25,000,000 shares; none issued (note 15)	—	—
	Common stock—without par value. Authorized 100,000,000 shares; issued 24,111,881 shares at $1 stated value (note 8)	24,112,000	240,853,000
	Additional paid-in capital (note 8)	1,285,622,000	1,068,257,000
	Retained earnings (note 13)	1,500,234,000	1,665,242,000
	Total Shareholders' Equity	2,809,968,000	2,974,352,000
	Total Liabilities and Shareholders' Equity	$6,850,676,000	$6,524,376,000

See accompanying notes to financial statements.

Statement of Earnings and Retained Earnings

Current Earnings	*Year ended December 31*	1969	1968
Income	Railway operating revenues	$1,651,978,000	$1,514,071,000
	Income from rental of properties, net	33,772,000	27,131,000
	Dividends and interest—consolidated subsidiaries	66,324,000	40,155,000
	Dividends and interest—other	2,661,000	15,451,000
	Net gain on sales of properties and investments	12,587,000	35,437,000
	Income under tax allocation agreements (note 5)	21,543,000	19,038,000
	Total Income	1,788,865,000	1,651,283,000
Costs and Expenses	Railway operating expenses, excluding items listed below	1,296,397,000	1,173,761,000
	Depreciation, including depreciation on leased lines (note 3)	91,279,000	94,135,000
	Taxes, except Federal income	144,059,000	125,602,000
	Equipment and other rents, net (note 13)	183,802,000	169,292,000
	Interest on debt	96,764,000	68,787,000
	Guaranteed dividends and interest—leased lines	26,173,000	26,315,000
	Miscellaneous, net	6,719,000	(1,454,000)
	Total Costs and Expenses	1,845,193,000	1,656,438,000
Earnings (Loss)	From ordinary operations (note 13)	(56,328,000)	(5,155,000)
	Extraordinary item (loss on investment in long-haul passenger service facilities) (note 12)	(126,000,000)	—
Net Earnings (Loss)	For the year (notes 12 and 13)	(182,328,000)	(5,155,000)
Retained Earnings	From prior years:		
	As previously reported	730,047,000	788,220,000
	Adjustment (note 13)	(8,818,000)	(6,436,000)
	As adjusted	721,229,000	781,784,000
		538,901,000	776,629,000
	Cash dividends	43,396,000	55,400,000
	Balance at end of year	$ 495,505,000	$ 721,229,000

See accompanying notes to financial statements.

Balance Sheet

Assets	*December 31*	1969	1968
Current Assets	Cash and temporary cash investments	$ 80,331,000	$ 46,915,000
	Accounts receivable and unbilled revenue	293,181,000	240,211,000
	Material and supplies, etc., at cost	104,303,000	88,692,000
	Total Current Assets	477,815,000	375,818,000
Noncurrent Assets	Investments and advances, at cost or less (notes 2 and 7)	1,139,038,000	1,217,796,000
	New Haven—net assets acquired, at cost (note 1)	—	127,544,000
	Properties (notes 3, 6, 7 and 12)		
	Road, structures, etc.	2,066,769,000	1,904,536,000
	Revenue equipment (rolling stock)	1,662,759,000	1,745,448,000
	Other	96,051,000	90,541,000
		3,825,579,000	3,740,525,000
	Less accumulated depreciation and losses upon merger	902,731,000	992,036,000
	Total Properties—Net	2,922,848,000	2,748,489,000
	Deferred charges and sundry assets	56,939,000	43,703,000
	Total Assets	$4,596,640,000	$4,513,350,000
Liabilities and Shareholder's Equity			
*Current Liabilities**	Notes payable (none to subsidiaries in 1969; $19,420,000 in 1968)	$ 102,048,000	$ 87,420,000
	Accounts payable and accrued expenses	396,407,000	356,519,000
	Total Current Liabilities (excluding debt due within one year)*	498,455,000	443,939,000
Long-Term Debt	Due within one year	106,058,000	76,716,000
	Due after one year	1,585,585,000	1,407,610,000
	Total Long-Term Debt (note 7)	1,691,643,000	1,484,326,000
Other	Estimated liabilities incurred upon merger (note 6)	101,935,000	119,346,000
	Casualty and other claims	90,667,000	81,803,000
	Amounts payable to subsidiary companies	167,711,000	122,582,000
	Other	240,857,000	231,015,000
	Total Other	601,170,000	554,746,000
Shareholder's Equity	Capital stock—$10 par value. Authorized 27,000,000 shares; issued 24,113,703 shares (1968—24,085,329) (note 8)	241,137,000	240,853,000
	Additional paid-in capital (note 8)	1,068,730,000	1,068,257,000
	Retained earnings (note 13)	495,505,000	721,229,000
	Total Shareholder's Equity	1,805,372,000	2,030,339,000
	Total Liabilities and Shareholder's Equity	$4,596,640,000	$4,513,350,000

See accompanying notes to financial statements.

(1) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Penn Central Company, a newly-formed holding company approved by shareholders during 1969; its wholly-owned subsidiary, Penn Central Transportation Company; and all majority-owned subsidiaries of Penn Central Transportation Company, except the Wabash Railroad Company, the divestment of which is arranged as ordered by the Interstate Commerce Commission, and the Lehigh Valley Railroad Company, which the Commission has required to be offered for inclusion in another railroad system.

The net assets of The New York, New Haven and Hartford Railroad Company, acquired as of December 31, 1968 and shown in total in the 1968 balance sheet, have now been reclassified to appropriate balance sheet categories. Assets acquired generally have been valued at estimated realizable values and appropriate recognition has been given to all liabilities assumed, including costs in connection with rehabilitation of facilities (see note 14). Results of operations include the New Haven properties from date of acquisition. Bondholders of the New Haven are litigating the terms of purchase ordered by the Interstate Commerce Commission and are seeking a substantial increase in the purchase price.

In December 1969 Penn Central's subsidiary, Great Southwest Corp., acquired all the outstanding stock of Richardson Homes Corp. by purchase and in January 1970 acquired I.C. Deal Companies Inc. through an exchange of stock treated as a pooling of interest. Earnings of Richardson Homes are consolidated from date of acquisition; the accounts of I.C. Deal have not been included in the consolidation as of December 31, 1969 since they are not material.

(2) INVESTMENTS AND ADVANCES

Investments and advances are as follows:

	Consolidated	Transportation Company
Majority-owned subsidiaries eliminated in consolidation	$ —	$1,024,769,000
Unconsolidated subsidiaries:		
Lehigh Valley Railroad:		
Stock—1,475,579 shares—97%-owned	23,025,000	7,619,000
Bonds, notes and advances	26,468,000	24,774,000
Wabash Railroad:		
Common stock—595,255 shares—99%-owned	3,292,000	—
Preferred stock—132,264 shares—43%-owned	4,982,000	—
	57,767,000	32,393,000
50%-owned companies (Principally railroad terminal companies):		
Stocks	21,276,000	12,997,000
Bonds, notes and advances	16,656,000	9,146,000
	37,932,000	22,143,000
Affiliated companies (Principally railroad connections):		
Stocks	9,911,000	7,183,000
Bonds, notes and advances	45,617,000	11,165,000
	55,528,000	18,348,000
Other:		
Norfolk and Western:		
Stock—1,191,905 shares	31,277,000	—
Debentures held or receivable under exchange agreement	62,400,000	—
Mortgage notes and contracts—real estate sales	180,103,000	1,154,000
Miscellaneous	110,704,000	40,231,000
	384,484,000	41,385,000
Total	$535,711,000	$1,139,038,000

Lehigh Valley Railroad Company

Based on unaudited financial statements, the equity in the net assets of Lehigh Valley at December 31, 1969 was $65,894,000. Lehigh Valley reported a net loss for 1969 of $6,402,000 and no dividends were paid during 1969.

Wabash Railroad Company

The Wabash properties have been leased to Norfolk and Western Railway Company since October 1964 under a rental arrangement that provides for a fixed rental, additional rental equated to dividends declared on Norfolk and Western stock, and payment of all expenses related to operation of the properties. An agreement also provides for exchange of all the Wabash common stock for 671,692 shares of Norfolk and Western common stock by October 1970. The Norfolk and Western common shares to be acquired through this exchange are subject to the voting restriction and extended divestiture requirements as explained under Norfolk and Western Railway Company below. Unaudited net earnings of Wabash for 1969 were $10,490,000 and dividends received during 1969 were $9,078,000.

50%-owned Companies

The net assets attributable to 50%-owned companies, on the basis of unaudited financial statements, exceeded the investment therein by $2,952,000 consolidated and by $2,216,000 for the transportation company at December 31, 1969. Dividends received from such companies in 1969 were $461,000 consolidated and $236,000 for the transportation company.

Norfolk and Western Railway Company

On October 16, 1964 The Norfolk and Western-Nickel Plate-Wabash Unification Plan became effective pursuant to an order of the Interstate Commerce Commission. As ordered by the Commission, voting rights of the Norfolk and Western holdings are placed with trustees under voting agreements until completion of divestiture, which is required by October 15, 1974, as to 791,905 shares, and by October 15, 1979 as to the remaining shares in accordance with an extension of the original divestiture period approved by the Commission in 1969.

Under an April 1966 agreement with Norfolk and Western 800,000 shares of its common stock are to be exchanged in stipulated installments to June 1974 for $104,000,000 principal amount of Norfolk and Western 4⅝% debentures, convertible into Norfolk and Western common stock by any holder other than Penn Central or its affiliates. The total consideration of $104,000,000 received or receivable under the exchange agreement was recorded as an investment in 1966. The resulting profit is being recognized as income ratably over the term of the agreement and $9,142,000 was recognized in 1969. At December 31, 1969 there is $40,376,000 of profit allocable to the remaining periods under the agreement. A total of 400,000 shares has been exchanged to December 31, 1969 and of the $52,000,000 principal amount in debentures received therefor, $41,600,000 have been sold.

At December 31, 1969 the market value of Norfolk and Western common stock holdings, including shares receivable in exchange for Wabash common stock, was $144,196,000, a substantial portion of which is subject to pledge or other restriction. Dividends and interest received from Norfolk and Western during the year aggregated $10,836,000.

(3) PROPERTIES

Properties in the consolidated balance sheet consist of the following general classes:

	1969	1968
Transportation properties:		
Road, structures, etc.	$4,355,011,000	$4,194,188,000
Revenue equipment (rolling stock)	2,373,688,000	2,482,999,000
	6,728,699,000	6,677,187,000
Other properties:		
Real estate companies and hotels	134,561,000	119,523,000
Miscellaneous	146,964,000	139,946,000
	281,525,000	259,469,000
Total properties	$7,010,224,000	$6,936,656,000

Transportation properties of the railroad companies are stated at valuations determined by the Interstate Commerce Commission in 1915 to 1919, with subsequent additions at cost or less. Other properties are stated at cost.

Transportation properties are generally depreciated in accordance with regulations issued and at rates approved by the Interstate Commerce Commission. As required, replacement accounting is used for certain properties, principally track structure and grading accounts. Under this method, amounts capitalized are not depreciated but replacements in kind are expensed; betterments and additions are capitalized; and retirements are charged to expense. Depreciation of other properties is provided on the straight-line method over the estimated useful lives of such assets. Depreciation expense on a consolidated basis was $133,328,000 for 1969 and $136,182,000 for 1968.

(4) FEDERAL INCOME TAXES

Federal income tax returns are filed on a consolidated basis for all companies owned 80% or more and no taxes are expected to be payable on such basis for the year 1969.

Federal income taxes reported in the statement of consolidated earnings and retained earnings represent current income taxes of $635,000 for 1969 and $449,000

for 1968 applicable to earnings of subsidiary and lessor companies for which separate returns are filed, and deferred income taxes of $987,000 for 1969 and $1,719,000 for 1968 applicable to non-regulated subsidiaries not includable in the consolidated income tax return.

No deferred income taxes are reflected in the accompanying financial statements for companies included in the consolidated tax return or for companies subject to Interstate Commerce Commission regulations which prohibit the reflection of such taxes in reports thereto. Deferred income taxes arise from timing differences due principally to reporting for tax purposes of: (1) depreciation on accelerated methods, (2) property sales on the installment basis, (3) merger, casualty costs and losses, and loss on investment in long-haul passenger service facilities on the cash basis.

On a consolidated basis the deferred income taxes, if reflected as required by generally accepted accounting principles (after giving recognition to tax effect of capital gains, dividend income and maximum utilization of investment tax credits), would have had the effect in 1969 of increasing earnings from ordinary operations by $1,500,000 ($.06 per share) and reducing the extraordinary charge by $22,500,000 ($.93 per share); and in 1968 would have had the effect of decreasing earnings from ordinary operations by $8,000,000 ($.35 per share). The cumulative amount of deferred income taxes at December 31, 1969 is not considered to be material. No deferred taxes are applicable to the transportation company. In filings with the Securities and Exchange Commission deferred taxes as shown above will be reflected.

Investment tax credits of approximately $90,000,000 are available for carry-forward to future years.

The consolidated Federal income tax returns filed by the Pennsylvania Railroad affiliated group for the years prior to 1954 have been examined by the Internal Revenue Service and all tax liabilities have been settled. For the years 1954 through 1961 the Internal Revenue Service has proposed additional taxes of approximately $50,000,000, exclusive of interest, based primarily upon the assertion that certain deductions should be spread to later years to a degree inconsistent with treatment of similar items accepted by the Service in prior years. The Company and its subsidiaries have filed initial protests against the proposed deficiencies; counsel is of the opinion that these protests will be settled substantially in the Company's favor. Accordingly, no accrual has been made in the accounts for additional taxes, or interest thereon, with respect to the years 1954 to 1961. The consolidated returns for years 1962 to 1964 are under examination by field agents of the Internal Revenue Service; no deficiency for these years has been proposed.

The consolidated Federal income tax returns filed by the New York Central affiliated group for the years prior to 1956 have been examined by the Internal Revenue Service and all tax liabilities have been settled. The tax returns for subsequent years, all of which indicated no tax liability, are subject to examination by the Internal Revenue Service; however, the statute of limitations bars any deficiency assessment for the years prior to 1966, other than 1962.

(5) TAX ALLOCATION AGREEMENTS

The Penn Central Transportation Company statement of earnings and retained earnings reflects amounts receivable under tax allocation agreements entered into between the transportation company and certain of its subsidiaries included in the consolidated income tax return. Under these agreements the subsidiaries pay to the transportation company the amount by which their tax liability is reduced or eliminated because of utilization in the consolidated return of operating losses or capital losses of other members of the group, but in no event more than 95% of the tax which would have been due if the subsidiaries had filed separate returns.

(6) MERGER RESERVES AND LIABILITIES

The merger of The New York Central Railroad Company into The Pennsylvania Railroad Company in 1968 resulted in duplication or obsolescence of certain railroad facilities and supplies and in the requirement to rehire certain otherwise surplus furloughed employes, for which appropriate valuation reserves and liabilities, aggregating $275,422,000, were established. Charges against these accounts were $22,466,000 in 1969 and $62,150,000 to December 31, 1969.

(7) LONG-TERM DEBT

At December 31, 1969 long-term debt, including debt due within one year, was as follows:

	Consolidated	Transportation Company
Bank loans, 4½% to 11⅗% due to 1984	$ 464,010,000	$ 436,376,000
Mortgage bonds and notes, 2½% to 9½% due to 2862	1,173,760,000	636,474,000
Collateral trust bonds and notes, 4% to 8¼% due to 1993	124,830,000	52,574,000
Railroad equipment obligations, 2¾% to 9¾% due to 1989	673,212,000	559,691,000
Real estate and other secured loans, 4⅞% to 12% due to 1999	148,850,000	—
Various unsecured notes, 4% to 8½% due to 1986	13,104,000	—
Miscellaneous obligations	41,927,000	6,528,000
Total long-term debt	$2,639,693,000	$1,691,643,000

Certain issues require annual installments of principal, in varying amounts, to the final maturity dates indicated. Payments of principal for the next five years are:

Year	Consolidated	Transportation Company
1970	$228,130,000	$106,058,000
1971	155,948,000	68,922,000
1972	172,349,000	112,621,000
1973	269,889,000	212,234,000
1974	160,240,000	99,759,000

Substantially all investments and properties included in the consolidated balance sheet and substantially all the properties of the transportation company, together with certain of its investments, principally Pennsylvania Company (a subsidiary which holds the stock of Norfolk and Western Railway Company and of the principal real estate and other non-railroad subsidiaries), have been pledged as security for loans or are otherwise restricted under indentures and loan agreements.

(8) COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

During the year 1969 the capital stock and additional paid-in capital accounts of the transportation company increased by $284,000 and $473,000 respectively as a result of the exercise of stock options and miscellaneous transactions through September 1969, at which time the holding company was formed. With the formation of the holding company the transportation company's $10 par value stock was exchanged for no-par stock with a $1 stated value, resulting in a transfer of $217,023,000 from the capital stock account into additional paid-in capital. The holding company's common stock and additional paid-in capital accounts were further decreased by miscellaneous transactions amounting to $2,000 and $131,000 respectively.

Transactions in stock option plans for officers and key employes during the year were as follows:

	Number of Shares Under Option	
	Restricted Plans	Qualified Plans
Outstanding at beginning of year	82,292	321,000
Granted	—	163,500
Exercised	25,226	2,600
Lapsed	1,560	29,500
Outstanding at end of year	55,506	452,400
Available for future grants	—	194,750

During 1969 options granted under the restricted plans were exercised at prices ranging from $12.79 to $24.50 per share for a total of $591,000. Those under the qualified plan were exercised at a price of $57.31 for a total of $149,000. Options outstanding at December 31, 1969 are exercisable at prices ranging from $12.50 to $77.25 per share and generally are exercisable over a four-year period, commencing one year after date of grant. No material dilution in earnings per share would have occurred if all options outstanding at December 31, 1969 had been exercised.

(9) LEASE OBLIGATIONS

Penn Central Transportation Company and certain other subsidiaries have obligations under long-term rail transportation equipment leases. Remaining rentals payable under these leases at December 31, 1969 are $511,669,000 consolidated and $627,225,000 for the transportation company. Annual rentals under existing leases will range during the next five years from a high of $46,638,000 to a low of $45,549,000 on a consolidated basis and from a high of $62,554,000 to a low of $58,326,000 for the transportation company. The rentals under these lease arrangements in 1969 were $43,014,000 consolidated and $59,175,000 for the transportation company. Rental obligations for miscellaneous real estate and sundry equipment are considered not to be material.

(10) CONTINGENT LIABILITIES

On a consolidated basis contingent liabilities aggregate $226,146,000 as of December 31, 1969 in respect of the principal of obligations issued by non-consolidated companies, principally terminal companies, in which the transportation company and other subsidiaries have an interest. Of these contingent obligations, $191,302,000 have been entered into jointly, or jointly and severally, with other companies.

Penn Central Transportation Company has contingent liabilities as of December 31, 1969 aggregating $437,084,000 as guarantor of the principal of obligations of affiliated companies. Of these contingent obligations $177,682,000 have been entered into jointly, or jointly and severally, with other companies.

In addition, there are other contingent liabilities but management believes these contingencies will not have a material adverse effect upon the consolidated or transportation company financial position.

(11) PENSIONS

Penn Central Transportation Company and certain other consolidated subsidiaries have pension plans which provide retirement benefits for substantially all management employes and certain personnel covered by labor union agreements. Pension expense for 1969 was $2,313,000 consolidated and was $1,466,000 for the transportation company. It is the policy of the companies to fund pension costs accrued and substantially all of the plans are fully-funded at December 31, 1969.

(12) LOSS ON INVESTMENT IN LONG-HAUL PASSENGER SERVICE FACILITIES

Effective January 1, 1969 the Company wrote down its investment in facilities directly related to long-haul passenger service west of Harrisburg, Pa. and Albany, N.Y. (including related mail-handling facilities and equipment) to estimated salvage value because prior operating losses make any possibility of recovery of such investment through future operations clearly remote. Proceedings are being initiated before the Interstate Commerce Commission for permission to abandon substantially all such service. As a result of the write-down, depreciation expense for the year 1969 was reduced approximately $4,500,000.

(13) RETROACTIVE ADJUSTMENTS

Retained earnings at December 31, 1968 have been restated from amounts previously reported to reflect a retroactive charge of $9,191,000 consolidated and $8,818,000 for the transportation company for the court-ordered resettlement, including interest, of certain 1965-1968 revenues between Northern and Southern railroads. Of this amount $2,484,000 ($.11 per share) consolidated and $2,382,000 for the transportation company is applicable to 1968 and, accordingly, earnings for that year have been appropriately restated.

In addition, the financial statements for 1968 have been restated, where appropriate, to conform with classifications adopted in 1969.

In accordance with a January 29, 1970 Interstate Commerce Commission order, the method of calculating rental charges for railroad freight cars was altered retroactively to August 1, 1969, the effect of which reduced 1969 consolidated railroad expenses by $7,100,000 and reduced the transportation company's rent expense by $6,500,000.

(14) REPORTS TO THE INTERSTATE COMMERCE COMMISSION

Financial reports filed with the Interstate Commerce Commission by Penn Central Transportation Company differ from the accompanying financial statements of the transportation company (which are in accordance with generally accepted accounting principles) in the following respects: (1) Shares issued in December 1968 in connection with the acquisition of New Haven properties have been reflected in the accompanying financial statements at $41.125 per share, the average fair market value of the stock during the period of negotiation of the acquisition agreement; whereas the Commission has ruled that such shares be valued at $87.50 per share, the value determined by the Commission. The difference in purchase price has been reflected partly as a deferred credit of $23,077,000 and partly as additional paid-in capital of $21,284,000 in reports to the Commission; whereas a liability of approximately $40,000,000 for rehabilitation and other costs assumed in connection with the acquisition of New Haven properties has been reflected in the accompanying financial statements, but not in reports to the Commission. In 1969, the net loss for the transportation company, as reported to shareholders, was $21,986,000 less than the loss reported to the Commission because of charge-offs against the liability for rehabilitation and other costs. (2) The extraordinary charge for loss on investment in long-haul passenger service facilities (see note 12) has not been reflected in reports to the Commission. Accordingly, 1969 depreciation expense in such reports was $4,500,000 higher. (3) The 1965-1968 revenue resettlement and interest costs, amounting to $8,818,000, which are treated as an adjustment of prior years' earnings in the accompanying financial statements are reflected in reports filed with the Commission as an extraordinary reduction of 1969 net income. (4) During 1969 the Commission ordered the transportation company to reclassify a $21,000,000 gain on security sales originally included in 1968 earnings from ordinary operations to an extraordinary item in reports to the Commission.

In addition, the gain on sale of certain securities by a subsidiary of the company under an exchange agreement entered into in a prior year is being amortized to income over the term of the agreement for financial reporting purposes, but gains are being recognized in reports to the Commission as disposition of securities received in exchange occurs. The cumulative effect at December 31, 1969 is a reduction of $7,631,000 in earnings reported to the Commission.

(15) SUBSEQUENT EVENT

In February 1970 Penn Central Company purchased all the outstanding stock of Southwestern Oil & Refining Company and Royal Petroleum Corporation through an issue of 400,000 shares of $3 cumulative preference stock convertible into two shares of common stock, or after five years, into one share of Norfolk and Western Railway Company common stock.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1500 WALNUT STREET
PHILADELPHIA, PA. 19102

The Board of Directors and Shareholders
Penn Central Company:

We have examined the balance sheets of Penn Central Company and consolidated subsidiaries and of Penn Central Transportation Company (wholly-owned subsidiary of Penn Central Company) as of December 31, 1969 and the related statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Penn Central Company and consolidated subsidiaries and of Penn Central Transportation Company at December 31, 1969, the results of operations of Penn Central Transportation Company for the year then ended, and, except that no recognition has been given to deferred income taxes as explained in note 4, the results of operations of Penn Central Company and consolidated subsidiaries for the year then ended, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 12, 1970

Peat, Marwick, Mitchell & Co.

PENN CENTRAL